

# Health insurer posts big earnings for '07

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HELENA — Blue Cross and Blue Shield of Montana, the state's largest health insurer, reported \$21.2 million in net income for 2007 — one of its best financial years ever.

The increased earnings for Blue Cross came as the Helena-based health insurer increased premiums for customers an average of 6 percent last year and 13 percent in 2006.

At the same time, Blue Cross claims paid out to physicians, hospitals and other medical providers

## ■ Salaries defended, 7B

declined slightly in 2007, dropping \$1.8 million to a total of \$413.2 million.

Company spokeswoman Linda McGillen said the positive income figures are partly because of one-time financial events that helped the company's bottom line.

For example, about \$16 million of its net income came from investment gains, including \$6 million in dividends paid by Blue Cross's for-profit subsidiaries, such as Western States Insurance,

Please see Earnings, 7B

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SENATE FINANCE & CLAIMS

Exhibit No. 15

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## Earnings

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and \$5.3 million from the sale of APS Health Care, a company that provided "wellness" services.

Blue Cross will do the wellness programs in-house now, and is making a big push to encourage its insured customers, or "members," to lead healthier lives, McGillen said.

"We've come to the conclusion that the way you start holding down health care costs and keep insurance costs down is to help people be healthier," she said. "Our members will see some benefit in the programs and services we offer, to help them stay healthier."

Blue Cross controls half of the health insurance market in Montana and insures or administers health insurance for 320,000 people. It filed its annual report with the state auditor's office on Tuesday.

Montana's second-largest health insurer, New West Health Services, filed its report March 1, showing 2007 income and expenses closely resembling the previous year.

New West writes or administers health insurance for about 40,000 people and controls 7 percent of the Montana market. It reported 2007 net earnings of \$4.8 million, a slight decline from its \$5.2 million of net earnings the previous year.

Its earnings were about 6.7 percent of its premium income, while Blue Cross income stood at 4 percent of the company's premium income.

Each year, health insurers set their premiums based on forecasts and the previous year's claims experience, trying to predict how much money they'll need to cover claims in the coming months.

Blue Cross officials have said they try to match premiums with claims payout as closely as possible and often over or underestimate. Last year, Blue Cross had nearly \$7 million in profits solely off its health insurance business, not counting investment income.

In 2006, it lost \$6.4 million on health insurance.

Both New West and Blue Cross are organized as not-for-profit

companies, meaning they have no shareholders and must take net earnings or profits and reinvest them in the company.

The only other health insurance firm with headquarters in Montana is Allegiance Life and Health Insurance Co. of Missoula, which began selling health insurance last spring.

Allegiance has written health insurance for more than 6,000 people as of early March and has more clients in the pipeline, said the company's vice president and general counsel, Susan Witte.

Allegiance had only \$2.7 million of premium income last year and reported a net loss of \$66,000.

"That's the way it is for a start-up company in the small-group market," Witte said.

She said the company expects to keep expanding its business, because it can process claims much more quickly than its rivals and thus keep premium costs down.

Other highlights of the Montana health insurance companies' reports include:

■ Blue Cross increased its financial reserves last year to \$145 million, an increase of some \$30 million from the previous year and 60 percent greater than it was four years ago.

On a proportional basis, the Blue Cross reserves stood at 28.5 percent of its premium income last year, while New West reserves of \$17.7 million were 24.5 percent of premium income.

■ Blue Cross cracked half a billion dollars in premium income for the first time, clocking in at \$510 million, a 6 percent increase from the previous year. New West had nearly \$72 million in premium income, a 4 percent increase from 2006.

■ Blue Cross reported \$89 million of administrative expenses, or about 175 percent of its premium income. New West's administrative expenses stood at \$12 million, or slightly less than 17 percent of its premium revenue.

■ Blue Cross paid out \$16.4 million in commissions to its sales agents, or just more than 3 percent of its revenue. New West paid agents \$1.4 million in commissions, or just less than 2 percent of its income.